

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 97-250-W - ORDER NO. 97-758
SEPTEMBER 4, 1997

IN RE: Application of Piedmont Water Company,) ORDER
Inc. for Approval to Operate a Water) ESTABLISHING
System and for Approval of Schedules) SERVICE AREA
of Rates and Charges for Residential) AND APPROVING
Customers in Gauley Falls Subdivision,) RATES AND
Pickens, South Carolina.) CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Piedmont Water Company, Inc. (Piedmont or the Company) for the establishment of a service area and for the establishment of rates and charges for water service provided to its customers in the Gauley Falls Subdivision of Pickens County, South Carolina. The system had been declared to be a "public utility" by prior Order of this Commission, due to collection of certain "tap fees." The Application was filed pursuant to S.C. Code Ann. Section 58-5-10 (1976) et seq., as amended, and 26 S.C. Code Ann. Regs. 103-700 (1976) et seq.

The Commission's Executive Director instructed Piedmont to publish, one time, a prepared Notice of Filing in newspapers of general circulation in the affected area. The purpose of the Notice of Filing was to inform interested parties of Piedmont's Application and of the manner and time in which to file the

appropriate pleadings for participation in the proceeding. Piedmont complied with this instruction and provided the Commission with proof of publication of the Notice of Filing. A Petition to Intervene was filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

A hearing was commenced on August 27, 1997 at 2:30 P.M. in the Commission's Hearing Room. The Honorable Guy Butler, Chairman, presided. Piedmont was represented by John F. Beach, Esquire. The Intervenor Consumer Advocate did not appear at the hearing. The Commission Staff was represented by F. David Butler, General Counsel. Mr. Michael Yother, a resident of the Gauley Falls Subdivision appeared, and spoke in favor of the Application.

Piedmont presented the testimony of Thomas Sutton, President of the Company. Sutton stated that Piedmont currently serves the Gauley Falls Subdivision of Pickens County, which currently has seventeen (17) residents, for no compensation.

According to Sutton, the Gauley Falls water system was originally constructed in the 1970's and 1980's in order to serve the then-new Gauley Falls development. The Commission held a proceeding in 1994 to determine the responsibility for running the system. On April 28, 1994, the Commission issued Order No. 94-393 in Docket No. 94-051-W which found that Piedmont, Ray Haskett, the original developer of the Gauley Falls Subdivision, and Robbins Brothers, Inc. were at that time jointly responsible for the water system. On May 31, 1995, Gauley Falls Real Estate Development

Corporation transferred all of its title and interest in the Gauley Falls water system, associated land, and infrastructure to Piedmont.

Currently, Piedmont serves seventeen (17) customers, all residential. The system is currently permitted to provide water service to 141 customers. Sutton noted that Piedmont worked closely with DHEC during the latter part of 1996 and the first part of 1997, extensively renovating and updating the system. The system is now in full compliance with DHEC requirements, according to Sutton. Upstate Water Resources has agreed to be responsible for the day to day operations of the utility.

With regard to rates, Piedmont proposes a flat residential water rate of \$32.00 per month to its customers. For swimming pool customers, Piedmont will charge a \$10.00 per month basic charge, plus a commodity charge of \$3.50 per 1000 gallons. The Company also proposes an initial connection fee (tap fee) of \$800.00 per connection, plus certain other rates and charges.

Piedmont asks that the Commission place the certificate and associated responsibility to provide water service solely in the name of Piedmont. Sutton also noted that he was in the process of obtaining a performance bond for the Company.

FINDINGS OF FACT

1. The Company is a public utility which operates in the State of South Carolina and is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10 et seq. (1976) as amended.

2. The Company will provide water service to seventeen (17) customers in the Gauley Falls Subdivision in Pickens County, South Carolina, and such further customers as may purchase lots in the subdivision.

3. The present case is an establishment case, as the Company has not had rates and charges previously established by this Commission. By way of its Application, the Company requests that we approve a flat residential water rate of \$32.00 per month to its customers, with swimming pool customers paying a \$10.00 per month basic charge plus a commodity charge of \$3.50 per 1,000 gallons, and a tap fee of \$800.00 per connection, plus certain other miscellaneous charges.

4. An examination of the proposed rates and charges shows no opposition to the setting of those rates and charges. We find that the proposed rates and charges are just and reasonable.

5. The Commission finds that an appropriate operating margin of (35.97%) is reasonable in light of the income and expenses of the Company.

6. The rate schedule approved by the Commission herein and depicted in Appendix A attached hereto and incorporated by reference is appropriate and should be adopted.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann. Section 58-5-10(2) and 58-5-10(3) (Supp. 1996), the Company is a public utility as it is a corporation which will furnish water service to the public for compensation, and, as such, is subject to the regulatory authority

of the Commission to supervise and regulate rates and services of the public utilities of this State. The Commission exercises general supervisory and regulatory jurisdiction over public utilities such as the Company herein, in respect to approval of service area and establishment of rates and charges pursuant to S.C. Code Ann. Section 58-5-210 (Supp. 1996).

2. The Application of the Company shows that it is intended to serve seventeen (17) customers on a water system and other customers who buy lots in the Gauley Falls Subdivision. The Commission finds and concludes that there is a need for a certificated water system in this area of Pickens County where the Company seeks approval of its service area.

3. By its Application, the Company requests the establishment of rates. The fact that this proceeding is an establishment case or the rates requested by the Company is not in dispute, nor are the rates proposed by the Company.

4. No South Carolina statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of rates of a public utility furnishing water. For ratemaking purposes, this Commission examines the relationships between expenses and revenues.

The Commission may decide to use the operating ratio and/or operating margin as guides in determining just and reasonable rates for a water utility, instead of examining a utility's return on its rate base. The operating ratio is a percentage obtained by dividing total operating expenses by operating revenues. The

obverse side of this calculation, the operating margin, is determined by dividing net operating income for return by the total operating revenues of the utility.

The Commission finds and concludes that its use of the operating margin has resulted in fair rates to both utilities and ratepayers. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E. 2d 257 (1984). The Commission will therefore continue to use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates in this proceeding.

The Commission has considered the proposed rate presented by the Company in light of the various standards to be observed and the interests presented before the Commission. The Commission must balance the interests of the Company with the competing interests of the ratepayers. In balancing these competing interests, the Commission has determined that the Company's proposed rates are just and reasonable.

Based upon the competing interests which the Commission must balance and the record in the instant proceeding, the Commission concludes that (35.97%) is a fair operating margin for the Company to have an opportunity to earn. This would require an annual operating loss of (\$2,348). The following Table reflects an operating margin of (35.97%):

TABLE A

OPERATING MARGIN

Operating Revenues	\$6,528
Operating Expenses	8,876
Net Operating Income	<u>(2,348)</u>
Customer Growth	-0-
Total Income for Return	<u>(2,348)</u>
Operating Margin	(35.97%)

In order to earn a (35.97%) operating margin, the Company may charge the rates as they appear in Appendix A, attached to this petition.

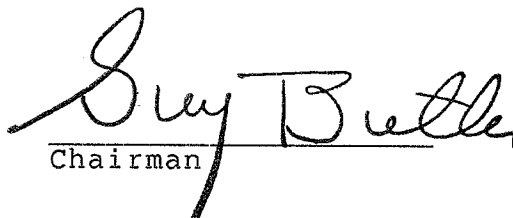
IT IS THEREFORE ORDERED THAT:

1. The Company is granted a Certificate of Public Convenience and Necessity to operate a water utility in Pickens County, South Carolina in the Gauley Falls subdivision.
2. The proposed schedule of rates and charges as set forth in the Application is found to be just and reasonable, and is hereby granted.
3. The schedule of rates and charges as set forth in Appendix A is approved and may be charged for service rendered on or after the date of this Order, contingent on the Company filing a performance bond with this Commission in the amount set by the Regulations. No charge for water service may be made until this bond is filed with the Commission. The schedule of rates and charges is deemed to be filed with the Commission.
4. The Company shall maintain its books and records for its


water operations in accordance with the NARUC System of Accounts for water utilities as adopted by this Commission.

5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Deputy Executive Director
(SEAL)

APPENDIX A

PIEDMONT WATER COMPANY, INC
PO BOX 1828
PAWLEYS ISLAND, SC 29585
(803) 237-5657

FILED PURSUANT TO:

DOCKET NO. 97-250-W

ORDER NO. 97-758

EFFECTIVE DATE: SEPTEMBER 4, 1997

WATER SERVICE

RESIDENTIAL WATER RATE	\$ 32.00 per month flat rate
RESIDENTIAL WITH SWIMMING POOL AND COMMERCIAL	\$ 10.00 per month plus commodity charge of \$3.50 per 1,000 gals.
INITIAL CONNECTION	\$800.00 per connection
RECONNECTING FEE	\$ 30.00